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AUTHOR(S):

Matsui, Kiyoshi

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PROBLEMS OF THE ECONOMIC DEVELOPMENT IN UNDERDEVELOPED COUNTRIES

Kiyoshi MATSUI*

Introduction

Problem of the economic development in underdeveloped countries is one of the most crucial issues among the problems in the recent international economics. It draws not only the interests of the people of so-called underdeveloped countries but also stirs as much concern among the advanced countries. The books and articles published on this theme is so numerous that it is difficult for one to cover every one of them.

In confronting with the huge materials we wonder how we can analyse and describe the real issues involved. What I would like to write here is methods of looking at this problem. (1) Historical background of the problem, namely how this problem of underdeveloped countries arose. (2) The definition of so-called underdeveloped countries. (3) What are the approaches in solving the problems of underdeveloped area. As much as possible I would like to avoid to present my own account on the problems but rather I will try to clarify where the problems exist in order to develop the further discussion in this field and to serve our future study on this crucial aspect of international economics.

* Professor of Economics at Kyoto University

I. Historical Background : How this problem of the development of underdeveloped countries arose ?

Among the many materials, comparatively few describe the historical development of the issue. But I think it is urgently necessary to clarify the historical background in order to understand the real problems of the discussion. First of all we have to recognize the fact that there are more discussions on the problem in so-called advanced countries than in the underdeveloped countries which need further economic development. Why the advanced countries need the development of the underdeveloped countries? A common answer to the question is this; the advanced countries get the profit in such a way that exporting surplus capital and goods in turn importing the cheap food and raw materials from the less advanced countries.

As you obviously know, this is answer given by Marxian economic theory. Orthodox economic theory does not entirely negate this factor. Orthodox economic theory agrees with Marxian economic theory in so far as recognizing the fact that the development of underdeveloped countries will not come by mere charity without establishing thorough economic relationship. The difference of both views exist in the following point, namely, while Marxian theory emphasizes the exploitation of advanced countries upon the underdeveloped countries through the export of surplus capital and good, on the other hand Orthodox theory negates this fact and believes the harmony of the interests between the advanced and the less advanced countries.

However, such a classical interpretation on the problems does not explain fully the ground of issues of underdeveloped countries in the period of after the World War II. Some of the theories on the problems, negate the economic development of underdeveloped countries through the capital exportation of advanced countries. They insist the need of the capital formation within the underdeveloped countries, for example, Dr. Singer and Prof. Nurkse. They do not concern problem merely from the view of the advantage of so-called advanced countries. What are the historical backgrounds of the problems of the development of underdeveloped countries which have been widely discussed after the World War II? I would like to make a few remarks about it.

(a) In spite of the changes of situation after the World War II, it has not changed the fact that primarily the advanced countries gain the profit in regarding the undeveloped countries as a market for the exportation of capital. Yet the intensification of the general crisis of world capi-

talism and the dissection of the system of capitalistic world economy urged many of the capitalist countries and less advanced countries to take the step of exchange control. Here we may notice there are obstacles of free exchange of each national currency. Therefore we must notice there are uncertainties as to the reliability of payment of profit from the capital importing countries to the capital exporting countries and these factors are making obstacles in the international movement of private capital. If it is difficult for the advanced countries to create their own market in the underdeveloped countries through capital exportation, naturally this leads to think of the formation of capital within the underdeveloped countries.

(b) Previously there was a kind of international division of labour between the industry of advanced countries and the agriculture of underdeveloped countries and the former thought the latter as the market of their industrial products. In such a period, industrialization of underdeveloped countries conflict with the interest of advanced countries. But at the present stage we may notice the major emphasis of industry in advanced countries moved from the industry which produces consuming goods to the industry which produces productive goods. In such a situation, it is not necessarily undesirable fact for the advanced country to see the industrial development of underdeveloped countries but it is rather a welcoming factor in view of the advanced country in expanding their market of industrial goods. In this connection, there is a discussion as to the encouragement of labor consuming industry among the underdeveloped countries, especially in over populated countries.

It is also important that we should take a consideration of political situation, namely there has been an intensification of national independent movement among the underdeveloped countries since the end of World War II. As a result it is no longer possible for the advanced countries to suppress the underdeveloped countries. The advanced countries are encouraging the formation of national capital within the undeveloped countries in the extent that it will not prevent their own interest.

(c) There is a tendency that the militalization of economics in the advanced countries seeks the exporting market of the military goods. So far as the underdeveloped countries become as the market of such military goods, the industrialization and at least the development of consuming industry in the underdeveloped countries, do not conflict with the interests of the advanced countries. Rather the development of the underdeveloped countries and the increase of their national income will raise the taxation rate and increase the purchasing power of the military goods.

(d) There is an increase of economic power of Soviet Russia. She has

been offering the hand of economic cooperation to not only so-called Peoples Democratic countries but also to the underdeveloped countries within Capitalistic world. In addition to this the conditions which Soviet Union offer contain many of advantages for the underdeveloped countries. In responding to these challenges, the capitalist countries were forced to develop the program of the development of underdeveloped countries in spite of some sacrifices of their own interests.

II. Definition: What does it mean by the word underdeveloped country ?

Secondary I would like to discuss the definition of the underdeveloped country. Prof. J. Viner in his "International Trade and Economic Development", 1953, describes the following five definitions of the term.

- (a) Low ratio of population to area.
- (b) Scarcity of capital as shown by the prevalence of high interest rates.
- (c) Low ratio of industrial output to total output or of industrial population to total population.
- (d) Young countries.
- (e) A country which has good potential prospects for using more capital or more labour or more available natural resources, or all of these to support its present population on a high level of living, or, if its per capita income level is already fairly high, to support a larger population on a not lower level of living.

Many of the scholars emphasize some part of these five points. Prof. Viner himself considers the fifth point with an importance and Prof. Nurkse emphasizes the fact of the lack of capital and Prof. Singer takes the element of low level of industrialization.

I do not think there is a great significance in comparing these different definitions and in depicting the uniqueness or the limitation involved in each of them. For each contains some truth in it. What it is necessary, it seems to me, is to give a clarification as on what aspect each definition is standing and to give the right interpretation of each position. Through them we may come to understand the comprehensive and actual structure of the underdeveloped countries. In short it is necessary to look the matter as a whole.

- (1) *The definition in view of the purpose of the development of underdeveloped countries.*

If we consider the term in view of the development of underdeveloped countries it may be defined as the countries which have low standard of

living or the countries which have low national income per capita. The ultimate purpose of the development is to raise the standard of living in the underdeveloped countries. On this point I think there is no disagreement among the classical school, the modern economic theory and Marxian economics. What makes different among them depends on what kinds of the means through which they plan to increase the real income of the underdeveloped countries.

(2) *The definition in view of the means of development of underdeveloped countries.*

In order to raise the real income, it is necessary to increase the productivity. In order to increase the productivity we may depict the following means.

(A) Division of labour

The underdeveloped stage of division of labour indicates the division of labour between industry and agriculture has not quite established. In other words such a country is still remained by and large as an agricultural country. The reason why the many insist the industrialization for the underdeveloped countries depends on this point. It is well known that Marxian economics emphasizes the heavy industrialization. Among the modern economic theorists some stress the industrialization of underdeveloped countries, for example, Dr. Singer. On the contrary, man like Prof. Viner who belongs to the classical school emphasizes division of labour within international circle rather than within the country, and encourage the underdeveloped countries to perform agricultural function upon the increase of agricultural productivity in the countries.

(B) Accumulation of Capital

It is highly important to build the accumulation of capital in order to increase the productivity in long-run. For this reason man like Prof. Nurkse defines the underdeveloped countries as the country which contains the scarcity of capital. There are different opinions as to the means of accumulation of capital such as : one emphasizes the accumulation of national capital like Marxian economics and Prof. Nurke etc. The others encourage the importation of foreign capital like U. N. and Buchanan and Ellis. Also some regard the national capital like the Marxian economics and the others the private capital like Prof. Viner as the primary position.

(C) Technical development

From this aspect, the underdeveloped countries may be defined as the countries which are still in the low stage of technical development. There are two major positions as to the question of what kind of technique should be employed. One emphasizes the capital intensive and heavy industrial

technique. The other emphasizes the labour intensive technique.

(3) *Sociological definition of underdeveloped countries.*

Thus we have analysed some of the purposes and means of the economic development, but as the question of what kind of social structure will be applicable to the development, the economists tend to keep silence relying upon mainly sociology except the Marxian economics. The sociological definitions which regard the underdeveloped countries as complex society i. e. Prof. Furnivall and dualistic society i. e. Prof. Boeke, contain the intention to make the underdeveloped countries as independent and modern countries.

Marxian economics regard the underdeveloped countries as dependent-colonial countries. It expects the countries will become modern independent countries through anti-feudalistic and anti-imperialistic struggle.

III. The Various Theories : What are the theories on the development of the underdeveloped countries ?

The problems of the development of the underdeveloped countries in a sense become the test case for the various economic theories to demonstrate the variability of their own theory. There are various types of countries which belong to so-called underdeveloped countries: some countries still contain the older structure of production in pre-capitalist stage and the others are gradually moving to Socialistic economy at the recent development in the post-war period. Many of the previous economic theories which have developed in growing period of capitalistic economy, consciously and unconsciously presuppose the permanency of the capitalism.

Yet they must face a dead end in solving the problems of the development of underdeveloped countries. In the situation, economic is no longer able to maintain itself as a static theory but it is required to be a dynamic. Furthermore it should be a historically dynamic theory which may include history as a whole. It is an interesting point to observe that how the classical and the modern economic theories which have been played the main role in the past make their applications to this problem.

(A) Classical School

As a representative of classical school which dealt with this problem of development of underdeveloped countries we may point out Prof. J. Viner's "International Trade and Economic Development." We may depict two or three uniquenesses of the theory as well as its limitation. One of the crucial problem exists on the problem of division of labour between industrial country and agricultural country.

As it is widely known, the Classical school maintained the division of

labour in international community according to the law of comparative cost regardless the type of economic system either industrial or agricultural. But as a practical result it brought specialization of industry for advanced countries and specialization of agricultural economy for underdeveloped countries. This naturally stirred the severe criticism among the underdeveloped countries. We have Friedrich List in the past and Mihael Manoilescu of Rumania in the recent period as example of such criticism. Prof. Viner's point of view on this issue is not radical as more authentic classical theorists and he recognizes the necessity of industrialization as a means of the development of underdeveloped countries. But in so far as he maintains that it should be done without disturbing the law of comparative cost, he belongs to the classical school.

Another problem is the economic development. As other classical theorists in the past, Prof. Viner shares a pessimistic view in regard to the international movement of capital and considers the possibility of accumulation of national capital. At this point, he encourages the accumulation of private capital which as much as possible preventing the national and state intervention. This reflects also a tendency of the classical school. As a result of the international division of labor which the classical stressed, there have been the unequal development between the advanced countries and underdeveloped countries. This fact indicates a limitation of the classical theory. We may depict the several limitations, but the basic problem exists in its static theory. The problem exists there, namely, it is contradictory that the economic theory which ultimately has a static character wishes to deal the dynamic economic development.

(B) Modern Economic Theory

There are many different view points among the modern economic theory and it is difficult to treat it as a whole. In spite of some of the detailed difference, first of all, if define it in terms of national income analysis, we may point out a trend which runs from Keynes to the recent theory of economic growth. As an application of the theory to the development of underdeveloped countries, there is a report on "Measures of the Economic Development of Underdeveloped Countries, 1951" by a group of specialists in United Nations. We may include Buchanan and Ellis: *Approaches to Economic Development*, 1955 in this type although it takes national income analysis and emphasizes the substantial economic factors.

As to the problem of the choice of selecting industrial or agricultural economy, the modern economic theory does not insist the necessity of industrialization of underdeveloped countries. The U. N. report mentioned above, indicates in the less populated countries it is desirable to have

increase of agricultural productivity while in the over populated countries need industrialization. The main point is to establish a desirable type of economy which is advantageous for the earning of foreign money. As the result, it include a dynamic view containing such factor as accumulation of capital which may bring the increase of productivity as well as the increase of national income.

The modern economic theory takes rather a position on the international capital movement. One of the uniquenesses of the U. N. report is seen on the point which clarifies the necessary amount of foreign capital importation in order to increase 2% of national income per capita. If it develops the theory centering upon the theory of economic growth some of the criticisms which apply to the theory in general can be seen in the particular problem of economic development. The structure of the theory which emphasizes the income and demand side and underestimates productive side, has a weakness in analysing the structure of production in relation with capital accumulation. Furthermore since it allows for economic sociology to analyse social economic structure which relates with the structure of production, it includes divergent view points. For example, even Buchanan and Ellis' work which regards real economic factors with a considerable importance is not able to avoid this limitation.

(C) A minor trend of modern Economic Theories

It might be a difficult classification, but I tried to regard the theory which emphasizes positively international movement of capital and considers the problem of development in the open system, as the main trend of modern economic theory. While considering the theory which takes a negative attitude toward international movement of capital as a minor trend which I am going to describe here. There are many different theories in the modern economic theory. For instance, it includes men like Dr. Singer who stands on the theory of Prof. Harrod and Prof. Nurkse who maintains a tradition of Austrian school. However we may find an agreement among them on the following point, namely all give the primary importance to the formation of national capital for the development of underdeveloped countries. As long as they stand on the modern theory of economic growth, it contains limitation mentioned above. But we may recognize a step of progress since it emphasizes the accumulation of national capital for the development of underdeveloped countries.

(D) Economic Sociology

We can include in this type the works like J. S. Furnivall: *Netherlands India, a study of plural economy* 1939, and J. H. Boeke: *The interests of the Voiceless Far East*, 1948. Such sociological schools concentrate upon

the analysis on the social and economic structure of the underdeveloped area relying upon economics for the analysis of the purpose and means of the development. This has a limitation which is exactly contrary to the modern economic theory. Even if this indicates the underdeveloped countries as complex society or plural society, it has some weakness in dealing with the means to modernize and to give independence to underdeveloped countries.

(E) Marxian Economic Theory

On the contrary to the modern economic theory, Marxian economic theory includes social factors in its theory and tries to grasp comprehensively both social and economic factors. However it has been mainly stressing the social and political factors on the problem of the development of underdeveloped countries. Namely for Marxian so-called underdeveloped countries mean the dependent colonial countries which need modernization and independence through the anti-feudalistic and anti-imperialistic struggle. But if we look at the recent situation of Soviet's policy in assisting these underdeveloped countries, there are increasing tendencies of economic developments such as encouraging trade with and providing loan to the underdeveloped countries. Even if in the case in which the development of the underdeveloped countries helps to progress the capitalistic stage of the countries, the assistance was given in so far as they maintain neutral and peaceful position.

Therefore, Marxian economics will face the necessity to advance the economic analysis of the problem of development of underdeveloped countries. Several articles by Prof. M. Dobb of Cambridge University seem to suggest such a direction. Whether the modern economic theory or Marxian economic theory will point out better way of development is not unrelated with the fact that whether American or Soviet policy will succeed or not.